

## Message Text

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ACTION AF-06

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FM AMEMBASSY GABORONE

TO SECSTATE WASHDC 7749

INFO AMCONSUL CAPE TOWN

AMCONSUL JOHANNESBURG

AMEMBASSY MASERU

AMEMBASSY MBABANE

AMEMBASSY PRETORIA

USDOC WASHDC

UNCLAS SECTION 1 OF 2 GABORONE 0406

CAPE TOWN FOR EMBASSY

E.O. 11652: N/A

TAGS: EFIN, EAID, EINV, BC

SUBJECT: BOTSWANA: VICE PRESIDENT'S 1976/77 BUDGET SPEECH

REF: 75 GABORONE 0307

DEPARTMENT PASS OPIC

1. SUMMARY: GOVERNMENT OF BOTSWANA BUDGET SPEECH GIVEN MARCH 8 BEFORE PARLIAMENT DISCLOSED THAT GOB EXPECTS 25 PER CENT DECLINE IN REAL REVENUE IN 1976/77, PRIMARILY DUE TO FALL IN CUSTOMS UNION RECEIPTS. RECURRENT BUDGET SURPLUS WILL BE LESS THAN ONE-THIRD OF PREVIOUS YEAR'S URPLUS. R 38 MILLION IN DEVELOPMENT PROJECTS ARE TO BE IMPLEMENTED. INCOMES POLICY WILL BE ENFORCED AND TAXES WILL BE INCREASED. VICE PRESIDENT MASIRE ALSO REVIEWED WORK OF PARASTATALS. HE NOTED THAT PROGRESS HAS BEEN GOOD IN ESTABLISHING NEW CURRENCY, AND STATED THAT EXCHANGE CONTROLS WILL BE INSTITUTED

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THEREAFTER BUT HE PROMISED ADEQUATE FOREIGN CURRENCY FOR BUSINESS

AND HOLIDAY TRAVEL.  
END SUMMARY.

2. 1976/77 RECURRENT BUDGET: VICE PRESIDENT DR. Q.K. J. MASIRE, IN THIS TENTH ANNUAL BUDGET SPEECH DELIVERED TO OPENING OF PARLIAMENT ON MARCH 8, ESTIMATED THAT 1976/77 TOTAL RECURRENT REVENUE WILL BE APPROXIMATELY R 68 MILLION WHILE RECURRENT EXPENDITURE SHOULD BE R 60.6 MILLION. THIS REPRESENTS A REAL-TERMS DECREASE IN TOTAL REVENUE OF 25 PER CENT IN 1976/77. MASIRE PREDICTED ONLY MODEST REVENUE INCREASES IN SUCCEEDING YEARS. THE R 7.4 MILLION RECURRENT BUDGET SURPLUS, WHICH IS LESS THAN ONE-THIRD OF 1975/76 SURPLUS, WILL BE ALLOCATED AS FOLLOWS: R 4.5 MILLION TO THE PUBLIC DEBT SERVICE FUND (PDSF), R 2 MILLION TO THE DOMESTIC DEVELOPMENT FUND (DDF) AND R 0.9 MILLION TO THE REVENUE STABILIZATION FUND (RSF).

3. INCREASING EXPENDITURES: IN THE 1976/77 BUDGET, RECURRENT EXPENDITURE AND CONTRIBUTIONS TO THE PDSF AND DDF WILL SIGNIFICANTLY EXCEED REVENUE. THIS WILL IN TURN NECESSITATE THE STOP GAP SOLUTION OF DRAWING ON BALANCES CURRENTLY IN THE PDSF, DDF AND RSF. ALSO IN AN ATTEMPT TO BALANCE THE NEW BUDGET, MASIRE PUT A REAL-TERMS 7 PER CENT CEILING ON FUNDING INCREASE REQUESTS BY GOVERNMENT MINISTRIES AND WILL HOLD THEM TO 9 PER CENT INCREASES IN FUTURE YEARS.

4. MASIRE PREDICTED CONTINUED GROWTH IN EXPENDITURES OVER THE NEXT FIVE YEARS. HE STATED THAT SUCH RECURRENT EXPENDITURE MUST GROW BY AT LEAST 9 PER CENT PER ANNUM IN REAL TERMS SIMPLY TO MEET RECURRENT EXPENSES GENERATED BY NEW DEVELOPMENT PROJECTS. TO BRING REVENUE AND EXPENDITURE BACK INTO BALANCE IN FUTURE BUDGETS, MASIRE PROMISED FISCAL RESTRAINT COUPLED WITH INCREASED TAXES.

5. DECLINING REVENUES: THE VICE PRESIDENT REVIEWED THE STATE OF GOVERNMENT REVENUES WHICH HAVE BEEN DECLINING RECENTLY AFTER SHARP PERCENTAGE INCREASES OVER THE PAST SEVERAL YEARS. HE ANNOUNCED THAT RECEIPTS FROM THE SOUTHERN AFRICAN CUSTOMS UNION (BOTSWANA, LESOTHO, SWAZILAND AND SOUTH AFRICA) HAD DECLINED WITH THE END OF A PERIOD OF LARGE MINING EQUIPMENT IMPORTS. BOTSWANA'S 1974/75 CUSTOMS UNION  
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RECEIPTS WERE R 30 MILLION (48 PERCENT OF GOB'S TOTAL NATIONAL REVENUE), WHILE PROJECTED 1976/77 RECEIPTS WILL BE ONLY R 15.5 MILLION (23 PER CENT OF NATIONAL REVENUE). THIS EXPECTED DROP IS A SIGNIFICANT FACTOR IN MASIRE'S ESTIMATE OF A 25 PER CENT REAL-TERMS DECLINE IN REVENUE IN 1976/77.

6. 1976/77 DEVELOPMENT BUDGET: ALTHOUGHT THE BUDGET CONTAINS PLANS FOR 1976/77 DEVELOPMENT PROJECTS WORTH

R 56.3 MILLION, THE VICE PRESIDENT ESTIMATED THAT ONLY R 38 MILLION WORTH OF PROJECTS ACTUALLY WILL BE UNDERTAKEN IN THE COMING YEAR. ABOUT ONE-THIRD OF THIS AMOUNT WILL BE FINANCED BY GO AND TWO-THIRDS BY EXTERNAL DONORS. THE MOST IMPORTANT DEVELOPMENT PROJECTS TO BE UNDERTAKEN IN 1976/77 ARE ROAD CONSTRUCTION, HEALTH TRAINING AND EDUCATION EXPANSION, PARTICULARLY IN THE RURAL AREAS. URBAN HOUSING AND LAND SERVICING WILL ALSO RECEIVE FUNDS THIS YEAR.

7. INCOMES POLICY: MASIRE ANNOUNCED THAT, IN LIGHT OF GOB'S QUOTE CONSIDERABLE FINANCIAL STRINGENCY UNQUOTE, THE NATIONAL POLICY ON INCOMES, EMPLOYMENT, PRICES AND PROFITS WILL CONTINUE TO BE ENFORCED. TERMING THE INCOMES POLICY QUOTE OUR MAJOR INSTRUMENT UNQUOTE OF FISCAL POLICY, HE STATED THAT ANY INCREASE IN GOVERNMENT SALARIES WOULD PUT FURTHER STRAIN ON THE BUDGET BALANCE AND WOULD NECESSITATE THE RAISING OF ADDITIONAL REVENUE. THE VICE PRESIDENT SYMPATHIZED WITH WORKERS WHOSE REAL INCOME HAD BEEN ERODED BY INFLATION BUT NOTED THAT THE GOB ALSO HAD EXPERIENCED THIS EROSION. HE ADDED, HOWEVER, THAT THOSE WHO SUFFER WORST FROM INFLATION ARE THE MAJORITY WHO DO NOT PARTICIPATE IN THE WAGE ECONOMY.

8. TAX PROPOSALS: MASIRE PROPOSED TAXATION CHANGES WHICH WOULD RAISE APPROXIMATELY R 2 MILLION IN 1976/77 AND R 4 MILLION ANNUALLY THEREAFTER. THESE PROPOSALS ARE AS FOLLOWS:

- (A) THE GOB PLANS TO PHASE OUT THE NON-TAXABLE HOUSING ALLOWANCE RECEIVED BY CIVIL SERVANTS AND INCORPORATE IT INTO TAXABLE INCOME. MEANWHILE, THE TAX BURDEN ON HOUSING ALLOWANCE PAID TO NON-GOVERNMENT WORKERS WILL BE SLIGHTLY EASED.
  - (B) NON-RESIDENTS, PRESENTLY TAXED AT A FLAT 20 PER CENT RATE, WILL BE SUBJECT TO THE SAME RATES AS RESIDENTS OF BOTSWANA.
  - (C) CORPORATE TAXES WILL BE RAISED FROM THE CURRENT 30
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TO 35 PER CENT. MASIRE STATED THAT HE IS AWARE THAT THE ARGUMENT WILL BE MADE THAT A CORPORATE TAX HIKE WILL DISCOURAGE BUSINESS GROWTH HERE. HOWEVER, ACCORDING TO THE VICE PRESIDENT, TAX RATES WILL STILL BE QUOTE SUBSTANTIALLY LOWER UNQUOTE THAN IN NEIGHBORING COUNTRIES AND TAX RELIEF FOR NEW COMPANIES WILL CONTINUE TO BE QUOTE GENEROUS UNQUOTE. THIS MEASURE IS EXPECTED TO RAISE ABOUT R 1.5 MILLION ANNUALLY BEGINNING IN 1977/78.

(D) LOCAL GOVERNMENT TAXES WILL BE INCREASED. THIS TAX, WHICH WILL BRING IN ABOUT R 1 MILLION PER ANNUM, WILL RELIEVE THE CENTRAL GOVERNMENT OF PROVIDING A LIKE AMOUNT OF SUBSIDY TO THE LOCAL GOVERNMENTS.

(E) THERE WILL BE A SMALL INCREASE MADE IN THE RATES OF PERSONAL INCOME TAX. APPROXIMATELY R 0.7 MILLION WILL BE RAISED ANNUALLY VIA THIS CHANGE BEGINNING IN 1977/78.

(F) LICENSE, PERMIT AND OTHER FEES WILL BE PUT ON A SLIDING SCALE SO THAT THEY MAY BE INCREASED TO COMPENSATE FOR LOSS OF REAL REVENUE DUE TO INFLATION. MOST SUCH FEES WERE FIXED SEVERAL YEARS AGO AND HAVE NOT BEEN CHANGED AS OTHER COSTS ROSE.

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ACTION AF-06

INFO OCT-01 ISO-00 OPIC-06 EB-07 CIAE-00 INR-07 NSAE-00

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FM AMEMBASSY GABORONE  
TO SECSTATE WASHDC 7750  
INFO AMCONSUL CAPE TOWN  
AMCONSUL JOHANNESBURG  
AMEMBASSY MASERU  
AMEMBASSY MBABANE  
AMEMBASSY PRETORIA  
USDOC WASHDC

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CAPE TOWN FORM EMBASSY  
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9. INTERNATIONAL ECONOMIC OUTLOOK: MASIRE EMPHASIZED, AS HE DID IN LAST YEAR'S BUDGET SPEECH (REFTEL), THAT WORLD RECESSION AND IMPORTED INFLATION HAVE HIT BOTSWANA HARD. MASIRE SAID THAT PROGRAMS TO RECYCLE OIL REVENUE HAVE BENEFITTED ONLY INDUSTRIALIZED COUNTRIES WHILE EFFORTS AT RECYCLING SUCH FUNDS THROUGH INTERNATIONAL DEVELOPMENT AGENCIES HAVE BEEN DISAPPOINTING. HE PLACED BOTSWANA IN THE QUOTE VULNERABLE UNQUOTE GROUP OF DEVELOPING COUNTRIES SUFFERING FROM A FALL IN COMMODITY EARNINGS AND CONTINUAL RISE IN PRICES OF FINISHED GOODS. DUE TO THE 18 PER CENT DEVALUATION OF THE RAND IN SEPTEMBER 1975, PRODUCTS IMPORTED FROM OUTSIDE THE RAND AREA HAVE BECOME EXTREMELY COSTLY TO BOTSWANA.

10. DOMESTIC ECONOMIC OUTLOOK: MASIRE REVIEWED

THE SUCCESS OF THE DIAMOND MINING OPERATION AT ORAPA AND REITERATED THE GOB'S HOPE THAT THE FINANCIAL POSITION OF THE SELEBI-PIKWE COPPER/NICKEL SMELTER OPERATION WILL IMPROVE  
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IN THE FUTURE. HE STATED THAT QUOTE THE PRIMARY AIM OF OUR RURAL DEVELOPMENT STRATEGY IS TO ENABLE PEOPLE TO EARN A BETTER LIVING IN THE RURAL AREAS UNQUOTE AND URGED THAT THE EXTREMELY RAPID URBANIZATION WHICH BOTSWANA IS UNDERGOING NOT CAUSE PEOPLE TO FORGET THAT THE RURAL MAJORITY HAVE EQUALLY PRESSING NEEDS FOR GOVERNMENT FUNDS. THE VICE PRESIDENT STRESSED THE NEED TO MAXIMIZE EMPLOYMENT OPPORTUNITIES IN URBAN AREAS WHILE CONTINUING TO EMPHASIZE RURAL DEVELOPMENT. BOTSWANA'S RURAL ECONOMIC SITUATION WILL BE IMPROVED, ACCORDING TO MASIRE, BY GOB PROGRAMS TO BETTER UTILIZE TRIBAL GRAZING LANDS, INCREASE CROP PRODUCTION AND EXPAND RURAL COMMERCIAL AND INDUSTRIAL ACTIVITY.

1. SUA PAN SODA ASH: (EMBASSY COMMENT: GULF RESOURCES OF HOUSTON, TEXAS IS CONSIDERING A VENTURE TO EXPLOIT SODA ASH IN NORTHERN BOTSWANA. FOLLOWING COMMENTS BY MASIRE DEAL WITH THIS POSSIBLE SODA ASH PROJECT. END COMMENT). QUOTE FOR SOME YEARS ATTENTION HAS BEEN FOCUSED ON BRINE DEPOSITS AT SUA PAN AS THE SITE OF THE NEXT MAJOR MINING VENTURE IN BOTSWANA. PROSPECTS FOR THE EARLY ESTABLISHMENT OF A MINE RECEDED WHEN MAKGADIKGADI SODA LTD. RELINQUISHED ITS PROSPECTING RIGHTS. HOWEVER, AN AMERICAN COMPANY HAS SINCE SHOWN INTEREST AND WE HOPE PROSPECTING MAY SOON RECOMMENCE. THE GOVERNMENT HAS EMPLOYED CONSULTANTS TO UNDERTAKE THE PRELIMINARY PLANNING OF A TOWNSHIP, WATER SUPPLY, ROADS AND RAIL LINK. EXPERIENCE CAUTIONS US AGAINST BEING TOO SANGUINE, BUT IF THE OUTSTANDING ISSUES ARE RESOLVED, THE MINE COULD BEGIN PRODUCTION BY 1982 UNQUOTE.

12. PARASTATALS: MASIRE NOTED THAT PARASTATALS HERE EMPLOY 3600 PEOPLE, APPROXIMATELY ONE-FIFTH OF THE PUBLIC SECTOR WORKERS. AMONG THE PARASTATALS DISCUSSED WERE:  
(A) BOTSWANA MEAT COMMISSION (BMC) HAD 1975 THROUGHPUT OF 188,000 CATTLE AND COMPLETED R 3 MILLION RENOVATION AT LOBATSE ABATTOIR. BECAUSE OF MARKETING DIFFICULTIES AND DEPRESSED WORLD BEEF PRICES, BMC LOST R 1.8 MILLION DURING PAST YEAR.  
(B) NATIONAL DEVELOPMENT BANK (NDB) APPROVED 490 LOANS WORTH R 1.2 MILLION IN 1975. THE GOB WILL INJECT ADDITIONAL LONG-TERM CAPITAL INTO NDB IN 1976 TO ASSIST EXPANSION OF NDB ACTIVITIES.  
(C) BOTSWANA DEVELOPMENT CORPORATION (BDC) WAS PRAISED BY  
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MASIRE FOR MAINTAINING QUOTE ITS OUTSTANDING RECORD IN PROMOTING BUSINESS IN BOTSWANA UNQUOTE IN 1975. AMONG BDC'S RECENT ACCOMPLISHMENTS ARE THE ESTABLISHMENT OF A BREWERY, INSURANCE COMPANY, HOTEL, SHOPPING MALL AND NEW INDUSTRIAL AREA.

13. NEW BOTSWANA MONETARY SYSTEM: MASIRE REVIEWED THE PROGRESS OF THE NEW CENTRAL BANK WHICH CAME INTO BEING LAST YEAR. IMF AND OTHER CENTRAL BANKS ARE ASSISTING WITH STAFFING AND TRAINING. THE NEW CURRENCY, TO BE CALLED PULA, WILL BE INTRODUCED IN MID- 1976. MASIRE EMPHASIZED THE BENEFITS TO BE GAINED FROM THE NEW CURRENCY (PRIMARILY MORE MONETARY INDEPENDENCE FROM SOUTH AFRICA). AND SAID THAT PLANS ARE WELL ADVANCED FOR WITHDRAWAL FROM THE RAND MONETARY AREA.

14. EXCHANGE CONTROLS: THE VICE PRESIDENT ANNOUNCED THAT EXCHANGE CONTROLS WILL BE INSTITUTED BUT THAT SCH CONTROLS WILL NOT BE USED AS A MAJOR INSTRUMENT OF ECONOMIC POLICY. HE REASSURED LISTENERS THAT BOTSWANA WILL BE ABLE TO MAINTAIN A SATISFACTORY BALANCE OF PAYMENTS AND WILL READILY PROVIDE ADEQUATE FOREIGN EXCHANGE FOR BUSINESS, HOLIDAY TRAVEL AND OTHER NEEDS. MASIRE REMINDED HIS AUDIENCE, HOWEVER, THAT BOTSWANA WILL NO LONGER HAVE AUTOMATIC ACCESS TO RAND RESERVES AND THEREFORE WILL HAVE TO CONSIDER VERY CAREFULLY THE IMPLICATIONS OF FUTURE PLICIES AND PROJECTS. FINALLY, HE REITERATED THAT BOTSWANA WILL QUOTE CONTINUE TO BE A FULL AND EQUAL MEMBER OF THE SOUTHERN AFRICAN CUSTOMS UNION UNQUOTE.

15. FULL TEXT OF SPEECH WILL BE TRANSMITTED BY AIRGRAM.  
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## Message Attributes

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